

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

REQUEST FOR COMMENTS ON THE)	
PROCUREMENT OF DEFAULT SERVICE)	
POWER SUPPLY FOR RESIDENTIAL AND)	D.T.E. 04-115
SMALL COMMERCIAL AND INDUSTRIAL)	
CUSTOMERS)	

COMMENTS OF FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Pursuant to the Request for Comments issued in docket D.T.E. 04-115 on December 6, 2004, by the Department of Telecommunications and Energy, Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") submits the following comments:

REQUEST 1: Would smaller customers be better served if power supply for default service is procured using a portfolio of more than two solicitations? Please discuss the advantages and disadvantages of increasing the number of solicitations used to procure default service supply.

RESPONSE: Unitil is supportive of a transition to a more diverse portfolio of default service procurements, particularly if longer-term procurements are incorporated. Increased diversity means increased price stability and reduced exposure to market conditions at any point in time. In the absence of competitive opportunities, such reduced exposure to market conditions is an appropriate goal.

In Unitil's specific case, since Unitil has relatively small loads to be served, adding procurements might lead to procurements for such small volumes as not to attract sufficient interest or result in an efficient use of administrative resources. Unitil would

support replacing a portion of its current procurements with longer-term procurements and perhaps adding procurement if it believes load levels are sufficient.

REQUEST 2: Would smaller customers be better served if power supply for default service was procured for a term longer than twelve months? Please discuss the advantages and disadvantages of using supply terms greater than twelve months. In particular, please discuss:

- a. Whether longer contract terms are likely to produce lower prices;
- b. How such an approach would affect price certainty and market efficiency; and
- c. How such an approach could be tailored to accommodate customer migration to competitive supply.

RESPONSE: Unitil believes that small customers would be better served if a portion of supply were procured for a term longer than twelve months. One consideration is the overall level of exposure to current markets. In the absence of competitive alternatives, there is a very high degree of reliance on default service by residential and small C&I customers. Due to the lack of competitive alternatives, this inquiry relates to roughly half of the total load served in Massachusetts. It would be an unfortunate, and avoidable, circumstance to have so many customers basically short in the market when a significant price rise occurs. Unitil views an appropriate longer term as being three years. Some combination of one year, two year and three year terms may be optimal. Alternatively,

an optimal balance might be fifty percent of requirements procured for one year and fifty percent procured for three years.

- (a) The level of pricing obtained is primarily a function of market timing. Longer term pricing should not be expected to result in lower prices per se; however the increased volume under contract may lead to favorable pricing.
- (b) A longer term will increase price certainty for customers. Market efficiency, how current pricing signals are, would likely erode with a longer term. However, given the experience gained over the standard offer period, price certainty is a more appropriate goal for small customers than market efficiency. When market efficiency is high, and default service prices are reflective of current market conditions, competitive retail opportunities for small customers may actually be limited. The conventional wisdom is that the closer default service pricing is to current market pricing, more competitive opportunities will exist. This general rule is true for larger customers who may have preferable load characteristics that make them cheaper to serve than the average customer. However, this rule does not translate well for smaller customers who are generally priced to a common load profile.
- (c) Tailoring procurement design while transitioning to a longer term for the specific purpose of promoting migration may not be appropriate or necessary. Longer procurement periods and increased price certainty, combined with the volatile nature of the wholesale energy markets, should create prolonged periods during which retail opportunities emerge. When the current market price drops below the long-term price of default service supply, a market opportunity will arise to serve all small

customers. This differs from the cherry picking of the best customers to serve, which is observed in the large customer sector. Ironically, a high degree of market efficiency will reduce the retail opportunities to serve small customers that are likely to emerge with longer-term procurements.

REQUEST 3: Would smaller customers be better served if power supply for default service was procured on a statewide basis? Please discuss the advantages and disadvantages of using a statewide approach to default service procurement.

RESPONSE: The primary advantages of a statewide procurement would be that the larger level of aggregate load at stake would promote a high level of competitive interest in the solicitations and would also allow for more creative procurement schemes. As one of the smaller LDC's in Massachusetts, Unitil recognizes the limitations load size can have on bidder interest and procurement design.

The primary disadvantages of statewide procurement relate to the uniqueness of each LDC's service territory and rate structure, to the opportunity for subsidization of cost across service territories and to the question of managing the procurement and contracting processes. The LCD's in Massachusetts have a broad range of small C&I customer class definitions; even the average residential customer profile may vary significantly by LDC (some may reflect dominance of multi-unit dwellings while others reflect dominance of single family homes). The LDC's may also be experiencing different levels of retail activity. These differences create differences in the cost of

service that should not be averaged across LDC. Massachusetts' three LMP load zones add complexity to a statewide procurement, but is likely a factor that could be overcome by a good design. With regard to procurement process and contracting, the number of stakeholders is likely to be great and the process might become inefficient.

REQUEST 4: Would smaller customers be better served if power supply for default service was procured using an auction process (e.g., descending clock) rather than through requests for proposals? Please discuss the advantages and disadvantages of using an auction process to procure default service. In particular, please discuss whether using an auction is likely to produce lower default service prices.

RESPONSE: The current RFP process requires participating bidders to submit their best pricing once, or once in an initial round and once in a final round. In such a blind process, suppliers are bidding against the unknown and are encouraged to offer their lowest prices. It may be true that a losing participant in an RFP process would be willing to offer a lower price if subsequent rounds were implemented, but the threat of losing without such subsequent rounds available should encourage the lowest bid.

In contrast, an auction process allows bidders to open with a higher price than their best (lowest) price. Ideally, the auction process plays out until each bidder has offered their lowest price and the open-ended nature of the auction promotes that outcome. However, in some cases an auction will end with no additional blocks or tranches remaining over bid before all winning bidders have offered their lowest prices.

REQUEST 5: Although the term “default service” is statutory, G.L. c. 164, § 1, it has confused some customers because of its unintended suggestion of nonfeasance in performing a legal or contractual obligation. Is there some better or more descriptive term that ought to be used by the distribution companies on and after March 2005?

RESPONSE: Unitil agrees there is some misperception that the term “default” connotes the result of some failure on the part of the customer. Unitil would welcome some alternative term, which might be used in the near-term for retail communication and education efforts and eventually become phased into wholesale commitments.

Massachusetts Electric Company has approached Unitil regarding use of the term “basic service,” which Unitil believes has some merit. Unitil has, therefore, joined

Massachusetts Electric Company and others in requesting a change of term from “default service to “basic service.”